

## **New Markets Tax Credit program Questions & Answers**

### **What is the New Markets Tax Credit?**

The New Markets Tax Credit is a program designed to spur the investment of \$15 billion in new private capital into business in low-income urban and rural communities in the United States. The program was enabled and funded by the Community Renewal Tax Relief Act of 2000, signed into law in December of 2000.

The program provides tax credits to individual and corporate investors who make an equity investment in an eligible “Community Development Entity” (CDE). The tax credits are taken over a seven-year period and total 39% of the initial investment.

### **What is a “Community Development Entity” (CDE)?**

A for-profit domestic corporation or partnership providing loans, equity investments or financial counseling to low income communities is eligible to be certified as a Community Development Entity (CDE). The candidate organization must demonstrate that its primary mission is to serve, or provide investment capital for, low-income communities or low-income persons and that it is accountable to the communities it serves.

Organizations meeting those qualifications submit an application to the Community Development Financial Institutions Fund. The Community Development Financial Institutions (CDFI) Fund was created within the United States Department of the Treasury to expand the availability of credit, investment capital, and financial services in distressed urban and rural communities. The fund certifies qualifying organizations as CDE’s.

At present, there are 27 certified Community Development Entities in Massachusetts. The CDFI maintains a list at [http://www.cdfifund.gov/docs/2003\\_nmte\\_certified\\_cde\\_byorgstate.pdf](http://www.cdfifund.gov/docs/2003_nmte_certified_cde_byorgstate.pdf).

### **What are Low Income Communities?**

Low Income Communities are census tracts that meet one of two criteria:

- 1) 20% of the residents are in poverty
- 2) The median income in the tract is 80% (or less) of the median income in the area (metropolitan area for urban tracts, statewide for rural areas)

### **Why is help needed in accessing capital in these communities?**

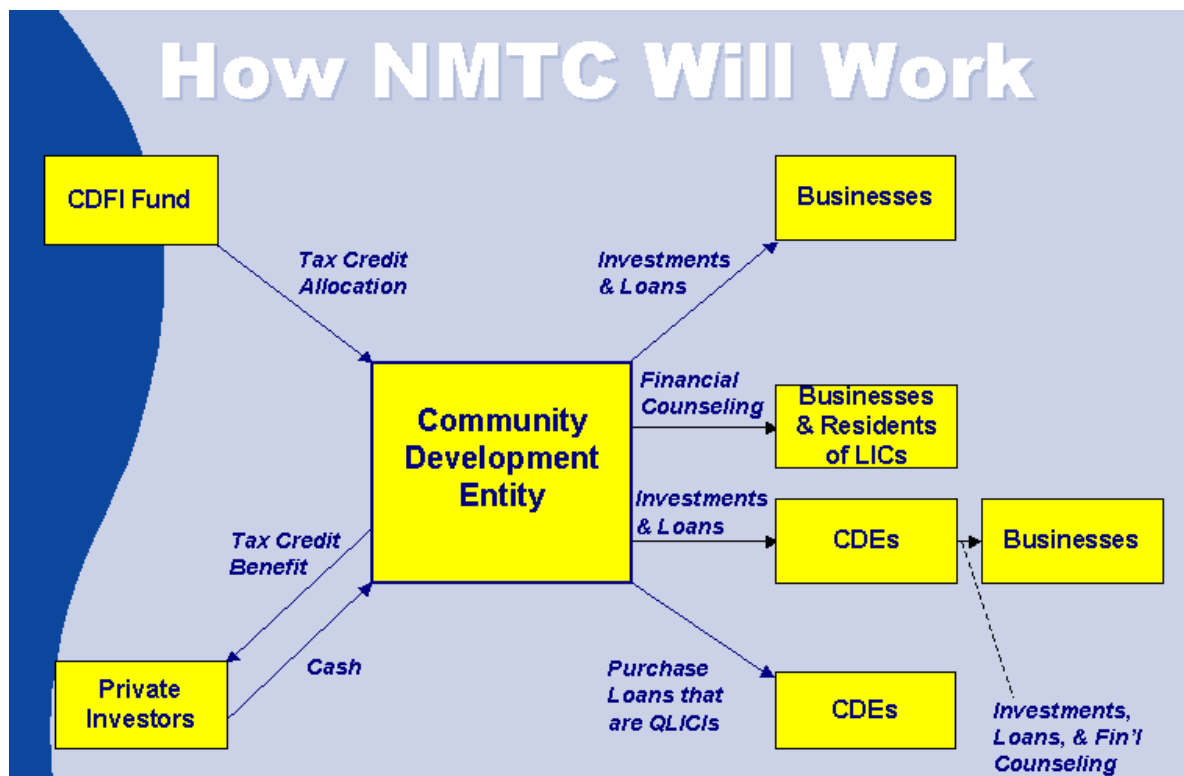
The Commonwealth’s inner cities and rural areas are areas of untapped human and economic potential. Businesses in these markets often have difficulty raising capital, as traditional sources of venture funds tend not to invest outside of areas with which they are familiar, and few such investors or funds reside in those communities. Funds that do exist in the community are likely to have severe limitations in access

to capital, information and experienced management talent. They are also exposed to the risks of a less-diversified economy within these communities.

### **How will does the New Markets Tax Credit Work?**

Approximately yearly, the Treasury's CDFI Fund will allow certified CDE's to apply to the Fund for an award of New Market Tax Credits. This year's program is expected to be announced in September and have an application deadline of November. Applicants' proposals are reviewed according to a set of objective criteria and ranked. An allocation of tax credits is provided to the winning applicants. These Community Development Entities can then accept investments from individuals and corporations who then take the tax credits. The Community Development Entity invests the funds received in qualifying businesses within the low-income communities it serves.

The attached chart shows the program's flow.



### **How much in tax credits will be available through this program?**

The program was authorized to issue a total of \$15 billion in tax credits over the life of the program, anticipated to last through 2007. In 2002, the first year in which allocations were made, 66 Community Development Entities received \$2.5 billion in aggregate tax credits to make available to investors. The 2003 allocation is anticipated to be \$1.5 billion, but that amount could change.

### **What types of Community Development Entities qualify for the program?**

The program intends to build upon the knowledge and expertise of local institutions that understand the business environment and have a track record of success in community and economic development. These may include community development banks or venture funds; community development corporations (though for-profit subsidiaries); small business investment companies (licensed by the SBA and operating in low income communities); New Markets Venture Capital companies (licensed by the SBA); and other investment funds serving low and moderate income communities. Tax credits may also be awarded for investments in national and regional funds that invest in local community development entities. Similarly, tax credits could be provided for secondary market funds that purchase eligible loans or investments from the originating entity.

### **What Investors will be eligible for the New Markets Tax Credit?**

Any taxable investor – including an individual, a company, or an investment fund – which makes an equity investment in a qualified CDE is eligible for the tax credit. Eligible investors who may be interested in this program include banks and thrifts, insurance companies, investment banks, venture capital and other investment funds, finance companies, individuals, corporations and others.

### **What businesses qualify to receive investments and loans from CDEs?**

Almost all types of businesses serving low-income communities – such as small technology firms, inner-city shopping centers, manufacturers, retail stores or microentrepreneurs – could qualify. To qualify, a business must meet two eligibility requirements:

- 1) The business must be located in a low income community (as defined above)
- 2) The business must operate in the low income community, as measured by the following financial criteria:
  - a. 50% of the gross income must come from doing business in a low income community
  - b. 40% of the use of the business's tangible property and 40% of the services provided must be in the low income community (this criteria can also be satisfied if either of these percentages exceeds 50%).
  - c. Less than 5% of the business's assets are in unrelated investments

Certain types of businesses – including the operation of rental real estate, golf courses, and gambling facilities – are ineligible.

### **How is Massachusetts assisting Massachusetts investors, CDE's and business in participating in this program?**

The Commonwealth of Massachusetts's Department of Economic Development is setting up a clearinghouse to provide information to investors, CDE's and businesses in low-income communities and to provide opportunities to match each of these groups with the others. (Details needed)

### **What are the key dates for this year's program?**

The Treasury's CDFI Fund opened the application process for this year's allocation of tax credits in July. Individuals and organizations wishing to be notified when the program is announced should send an email to [massconnection@state.ma.us](mailto:massconnection@state.ma.us). Organizations can apply for certification as CDE's at any time.

### **How can I learn more?**

Excellent resources on the program are available on the web, especially at the Treasury's CDFI Fund site, <http://www.cdfifund.gov/programs/nmtc/>.

You may also contact the Massachusetts Connection at the Commonwealth's Department of Economic Development at 617 727-1350 x312 or at [massconnection@state.ma.us](mailto:massconnection@state.ma.us)